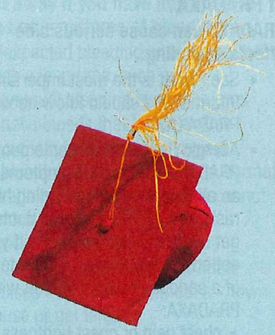
President Clinton tried.



President Bush tried.

President Obama thinks he has an answer.

But can America afford this approach to solving student debt?

BY HALEY SWEETLAND EDWARDS

WHEN HILLARY CLINTON, JEB BUSH, MARCO Rubio or any of the 14 other 2016 presidential hopefuls give speeches promising to solve the student-debt crisis facing our nation, they often point to people like Allison Minks. The 35-year-old veteran and mother of two boys owes a staggering $99,326 in student loans—a sum that her full-time job as a counselor at a nonprofit clinic outside St. Louis doesn't begin to cover.

Like the rest of the tens of millions of Americans who collectively owe $1.3 trillion in student debt, Minks has made what appears to be a Faustian choice: she pays a small, affordable amount each month, which isn't enough to keep up with the relentlessly compounding interest, and then watches as her principal balloons, year after year.

But if that's where the stump speech usually ends—with grim prospects and a soaring promise to fix the system—there's now a significant plot twist. In the past eight years, the federal government has quietly, almost imperceptibly, changed the rules of the loan game. It has made itself the primary bank for students and put in place an expansive new safety net. A key provision allows all federal borrowers to cap their monthly payments at 10% or 15% of their discretionary income and wipes any remaining balance off the books after 20 or 25 years. If people—like Minks—work in public service, they can get loan forgiveness after just 10 years.

In other words, because of this program, Minks now pays an affordable amount each month and watches her principal balloon—but she'll be scot-free before she is 45. Without the plan, she'd have ended up a quarter-million dollars in the hole, making payments for decades longer. "It's incredible," she says. "It gives you hope."

Supporters hail this new federal entitlement as a kind of Obamacare for education. It is, after all, a government-backed insurance policy directed squarely at students. But unlike the pitched battles over the real Obamacare, this revolution in student debt has been largely ignored in op-eds, on the nightly news and on the national political stage, where the focus is most often on the 71% of undergraduates who graduate with debt or the 1 in 7 who end up defaulting on their loans. Bush and Rubio have advanced higher-education plans that would overhaul the accreditation process to clear the way for new online institutions offering cut-rate degrees. Democratic front runner Hillary Clinton offers a smorgasbord approach, including cutting loan-interest rates, expanding existing grant programs and offering rewards to colleges that keep their tuition low.

In short, for many students, the problem of being crushed beneath unaffordable payments—and therefore either defaulting or paying off their debt well into old age—has already been solved, even though tens of millions of families and the political class haven't caught up with that fact.

But this new federal safety net contains serious flaws. If they go unaddressed, the program could become hugely costly down the road: the Brookings Institution estimated that it could cost taxpayers $250 billion over the next 10 years. One problem is that it overwhelmingly favors the most privileged class of students, those getting

PHOTO-ILLUSTRATION BY DAN SAELINGER FOR TIME

Suzzane Cawthra, a labor organizer, says the prospect of public-service loan forgiveness is why she went back to grad school

graduate degrees. It allows them to run up vast debts that they can eventually walk away from by working for a time in "public service" jobs that stretch the common definition of that term and to leave future taxpayers holding the bag. Perhaps most damning, while the program takes the pressure off students, it does nothing to control the actual price of tuition, which has risen like crazy for years. It also arguably makes it more likely that tuition will rise even more quickly in the future, as students' ability to pay becomes a moot point. Douglas Holtz-Eakin, a former director of the Congressional Budget Office and John McCain's economic adviser in 2008, sees it as an unmitigated disaster. "Why are we talking about student loans?" he says. "We should be talking about why college is so expensive."

There are moves afoot in Washington to tighten up the rules. But with gridlock on Capitol Hill and the race for the White House running full throttle, the fate of this powerful and flawed new federal entitlement hangs in the balance.

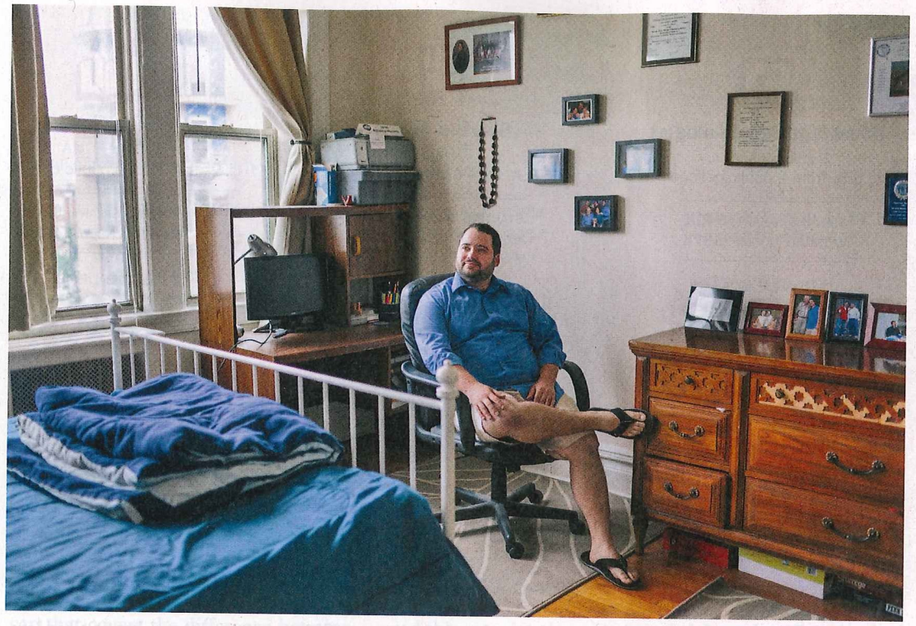
TO UNDERSTAND the new college entitlement, you need to look at two key programs. The first is what's known as Income Driven Repayment (IDR). There are a handful of plans under this program, the first implemented by Bill Clinton, another by George W. Bush and three more by Obama, but the upshot is this: people whose monthly federal-loan payment under an IDR plan is less than it would be under a standard repayment plan can now cap their monthly payments at a maximum of 15% of their discretionary income. Those who make the payments, no matter how small they are—even $10 a month—will see any remaining balance after a maximum of 25 years wiped off the books. Poof, gone. That's true no matter when people first borrowed, how much their parents earn or what kind of federal loans they have. Most borrowers now get an even better deal. They can cap their payments at 10% of discretionary income and get forgiveness after just 20 years. These programs effectively put an end to students' needing to default on their loans.

The second key program is Public Service Loan Forgiveness (PSLF). It's simple: if you're diligently making payments in one of those IDR plans and you're working full time for either the government or a registered nonprofit—from a local food bank to a private university—you can sign up to have any remaining balance on your loans forgiven after just 10 years. This program applies only to people who have federal direct loans, but those with federally guaranteed loans can become eligible by reconsolidating them.

Both programs are run out of a nondescript nine-story office building behind the train station in Washington. This is the Department of Education's Federal Student Aid building. From here, U.S. officials oversee almost $1.2 trillion in student debt, a loan portfolio that is already bigger than all of Wells Fargo's outstanding mortgage, auto, consumer and commercial real estate loans combined—and it's only getting bigger.

It wasn't always this way. Up until 2010, the federal government's role in the student-loan marketplace was behind the scenes, as a guarantor. Every year it would hand out huge subsidies to private banks, like Bank of America, that would then turn around and issue federally guaranteed loans to students. The federal government was on the hook for those loans, but instead of lending the money, it paid banks to lend for it. It was a jerry-built setup that many education reformers argued was a huge waste of taxpayer money. In 2010 they finally got their chance to fix it, with a new law that passed in the same hunk of legislation that created Obamacare. The law eliminated the subsidy program entirely and instead made the Department of Education the direct lender. "We got rid of the costly middleman," says Robert Shireman, who was Deputy Under Secretary of the Department of Education at the time. The money the government saved went to increase funding for Pell Grants, which go to low-income students.

From your typical student's perspective, the change was imperceptible. Those receiving Pell Grants saw a bump, but the vast majority of students interfacing with the loan program didn't



Daniel Michelson-Horowitz chose a career in the public sector despite having more than $200,000 in debt

CAWTHRA: JOHN FRANCIS PETERS FOR TIME; MICHELSON-HOROWITZ: LEXEY SWALL—GRAIN FOR TIME

notice much of a difference. Federally guaranteed loans from private banks were disbursed in basically the same way, with the same interest rates, as loans directly from the feds.

But the national policy implications of the shift were enormous. In addition to making the Department of Education one of the biggest banks in the western hemisphere, it gave the department more power to rewrite the rules on how the vast majority of student loans are disbursed, repaid and forgiven, without having to pass a law through Congress. Tennessee Senator Lamar Alexander, a Republican and a former Secretary of Education, decried the move as "another Washington takeover." But for the most part, the expansion of IDR—arguably the single biggest shift in how student loans work in this country—went unnoticed by the American public.

THE LACK OF ATTENTION to the rise of this new safety net has been, from the Obama Administration's perspective, both a blessing and a curse. It was good in that the new federal programs did not earn the energetic ire of congressional budget hawks and were spared the treatment that Obamacare received. But it was also bad because as long as no one knew about IDR or PSLF, students were not enrolling in them.

In late 2013, the Department of Education attempted to fix the problem with a marketing campaign, complete with YouTube videos, Twitter "office hours" and millions of targeted emails. "No one should be in a position where they're being crushed by their monthly payments," Ted Mitchell, the Under Secretary of Education, told TIME recently. "That's the idea."

The campaign has been successful. In the past two years, the number of borrowers enrolled in any IDR program has grown by more than 40%, reaching roughly 4 million this fall. The Education Department also estimated that 600,000 people would soon be signed up for PSLF. But despite these increases, the programs remain deeply underenrolled—which means that many students continue to suffer unnecessarily under crushing payments. In 2014, students defaulting on their loans still outnumbered IDR enrollees 3 to 1.

25-year-olds with student debt

25%
2003

45%
2013

One reason for those stubbornly low enrollment rates is that choosing among the array of different options, each with its own eligibility requirements, and then navigating the correct paperwork is still fiendishly complicated. The Consumer Financial Protection Bureau also lays some blame on loan servicers—the third-party private contractors that are supposed to help students choose an appropriate repayment program—which it says have not been providing adequate information about IDR and PSLF. New Education Department rules require loan servicers to tell students about the programs.

Justin Hoenke, a 34-year-old father of two from Titusville, Pa., who works as a public librarian, says he has tried three times to sign up for PSLF but keeps getting letters back saying he "didn't fill in one box or something like that so I had to send it in again."

FOR OBAMA, the new federal safety net for students represents the fulfillment of an original campaign promise. At the beginning of the financial collapse, in 2008, Obama gave a series of speeches lamenting that the most talented graduates often feel they have no choice but to look for a job on Wall Street or in another high-paying private sector to pay back their loans. What if, he mused, the best and brightest could be lured to jobs in the public interest instead? "The idea of

Free money

How much of your loans will be forgiven depends on the cost of living in your state, your salary after graduation and whether you work at a nonprofit.

Information technologist
FLORIDA
B.S. from a public college

STARTING SALARY: **$46K**
ADJUSTED INCOME: **$37K**

LOAN BALANCE
$24,017
at 4.7%

BORROWER PAYS BACK: $26K
AMOUNT FORGIVEN: $6K

Startup owner
GEORGIA
B.A. from a public college

STARTING SALARY: **$23K**
ADJUSTED INCOME: **$10K**

LOAN BALANCE
$28,400
at 4.7%

BORROWER PAYS BACK: 0
AMOUNT FORGIVEN: $55K

Schoolteacher
OKLAHOMA
B.A. from a public college

STARTING SALARY: **$34K**
ADJUSTED INCOME: **$23K**

LOAN BALANCE
$28,400
at 4.7%

BORROWER PAYS BACK: $10K
AMOUNT FORGIVEN: $32K

Barista
RHODE ISLAND
M.F.A. from a private art school

STARTING SALARY: **$19K**
ADJUSTED INCOME: **$15K**

LOAN BALANCE
$70,000
at 7.2%

BORROWER PAYS BACK: $7K
AMOUNT FORGIVEN: $164K

Nonprofit lawyer
OHIO
J.D. from a private law school

STARTING SALARY: **$54K**
ADJUSTED INCOME: **$40K**

LOAN BALANCE
$122,158
at 7.2%

BORROWER PAYS BACK: $31K
AMOUNT FORGIVEN: $179K

Orthopedic surgeon
MASSACHUSETTS
M.D. from a private medical school

STARTING SALARY: **$57K**
ADJUSTED INCOME: **$45K**

LOAN BALANCE
$310,000
at 7.2%

BORROWER PAYS BACK: $130K
AMOUNT FORGIVEN: $404K

people not being able to become teachers and nurses because of this debt was very front and center for him," a White House official told TIME recently. His Administration's decision to expand the IDR program, which was originally passed under Clinton, and PSLF, which was started under George W. Bush, is the fruit of that idealism. The programs are designed to level the playing field, to allow young people to choose the careers they want without, as Hoenke puts it, "signing up for financial ruin."

The public-service industry has been quick to take up the mantle. Universities and nonprofits, like Georgetown and the Association of American Medical Colleges, are already using IDR and PSLF as recruiting tools, touting them on their websites and in their promotional material. "Many parents come to us very concerned about their children's choice in major and try to get them to switch, because of loans and earning potential," says Anissa Rogers, director of the Dorothy Day Social Work Program at the University of Portland. "Loan forgiveness helps calm the anxiety, both on the part of students and their parents."

Medical and law schools have also publicly embraced the programs, in part because their students tend to take on mountains of debt and make modest salaries in the years immediately after graduation, explains Matthew Schick, a senior legislative analyst at the Association of American Medical Colleges. The combination of IDR and PSLF may encourage young residents to choose less lucrative specialties, like primary care, or to serve in rural hospitals, he says.

Philip Schrag, a professor at Georgetown Law School, which covers the monthly loan payments for graduates who go into public service, says the federal program encourages bright, passionate young lawyers to "make less financially motivated decisions." Daniel Michelson-Horowitz, who graduated in December 2013 from Georgetown Law with more than $200,000 in debt, always wanted to work in public service but credits IDR and PSLF for making that a "financially responsible choice." He now works at the Food and Drug Administration, where he earns less than half what a first-year associate makes at a big law firm. "I wouldn't be where I am today without it," he says.

$21.8 BILLION
Budget shortfall this year due to the new loan program

$250 BILLION
Shortfall expected by 2025

THE CLEAR BENEFIT of the new programs to young professionals like Michelson-Horowitz also fuels one of the sharpest criticisms: Why does this federal entitlement provide the most generous benefits to the most privileged students, like lawyers and doctors, who take on the most debt? Aren't they the ones who are most likely to succeed no matter what—without taxpayer help?

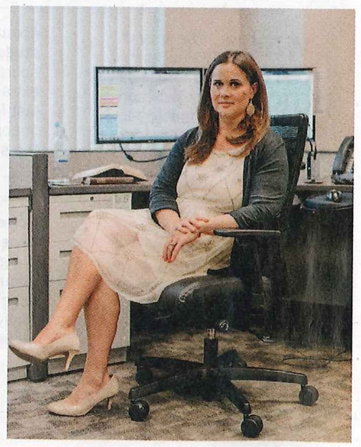
"I think most people like the idea of helping a public-school teacher or a nurse pay off her debt," says Andrew Kelly, an education expert at the conservative American Enterprise Institute. But, he argues, the definition that the government uses for "public service" is much more expansive. It includes anyone who works at any government agency or registered nonprofit, which could apply to upwards of 25% of the American workforce. That means schoolteachers, but it also means a financial manager overseeing the endowment at Yale, a registered nonprofit. "Why is that inherently more valuable to society than starting a business?" Kelly asks.

Another major weakness of the new federal safety net, Kelly says, is that it does not cap the amount that graduate students can borrow from the federal government. Dependent undergrads are barred from borrowing more than about $31,000 in federal loans—a cap that covers the difference between what most students' families can contribute and what they need. Independent undergrads—those who are married, have children or are otherwise likely to be footing the bill on their own—are barred from borrowing more than $57,500. But graduate students are different. They can take out as much as necessary to cover the full cost of attendance, which can mean hundreds of thousands of dollars. That's helped fuel a run on graduate borrowing in the past eight years. The amount per student disbursed through Grad PLUS, one of the loan programs for graduate students, tripled from 2007 to 2015, according to statistics from the Department of Education.

The lack of a cap on grad-student borrowing, combined with PSLF, creates even more of a mess, said New America researchers Jason Delisle and Alexander Holt. In a recent paper, they showed that once graduate students borrow beyond a certain amount, there's very little probability that they'll ever have to pay it all back, given average salaries, caps on monthly payments and forgiveness after 10 years. Take, for example, a young law student who wants to work at a nonprofit. If you look at the average salary for a nonprofit lawyer in his age group over the next 10 years, then calculate his monthly payment at 10% of his discretionary income, he is likely to pay back $49,000. Anything beyond that is picked up by the American taxpayer.

Defenders of the program say that's a good thing: society benefits from bright young lawyers working in the public interest. But Delisle suggests it's not the best use of limited public funds. Under IDR and PSLF, the federal government will forgive roughly $147,000, including interest, for every lawyer with an average debt load who goes into public service. That's about 10 times what an average Pell Grant recipient gets over her entire undergraduate career, Delisle says.

Perhaps the most pointed criticism of the new federal programs is they act as a powerful, if indirect, subsidy for the $488 billion higher-education industry. If students can expect to see their monthly payments capped and much of their balances eventually forgiven, what incentive do colleges and universities have to keep tuition low?



RYAN LOWRY FOR TIME

Allison Minks, a counselor at a nonprofit, will have more than $100,000 in student loans forgiven

James Leipold, executive director of the National Association for Law Placement, a 2,500-member group that advises law students and lawyers on employment issues, says the "unlimited flow of federal dollars" helps underwrite colleges and universities that are building "health clubs and climbing walls and cafés and cinemas." Colleges have also been criticized for hiring an ever increasing number of administrators. "Maybe that's fine, if as a country we say, 'That's good, and we want to subsidize that,'" but we should be aware: "That's what's being subsidized."

Holtz-Eakin, McCain's former adviser, says the federal safety net for students simply "makes the same mistake that Obamacare did: it creates a federal subsidy for insurance rather than addressing the underlying cost." Both the student-loan program and Obamacare, he says, attempt to provide individual subsidies in industries that don't operate like normal markets because they're funded by both public and private sources and because customers are often not able to judge the relative quality of the end product. "Healthiness" and "a good education" aren't easily quantifiable. "What we get out of these things are products of extremely high cost and middling quality

that can't easily be measured," Holtz-Eakin says. "It doesn't make any sense."

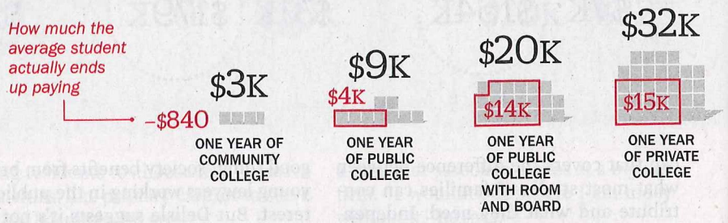
While experts question the effectiveness of the new programs, the campaign rhetoric about college affordability charges ahead. For the most part, the Democrats have centered their attention on the idea of "debt-free college"—a carefully branded phrase that was popularized by the left and that appears to mean different things to different people. Obama has thrown his weight behind waiving all community-college tuition for all students with a C average or higher, while Clinton has put forth a dense proposal that offers an array of solutions costing up to $350 billion in the next decade. She calls for lower student-loan interest rates, better work-study programs, more direct aid to low-income students and a suite of federal incentives designed to reward institutions that keep their tuition low. Meanwhile, Bernie Sanders and Martin O'Malley have advanced even more ambitious "debt free" plans that hinge on large, direct federal subsidies for colleges and universities, so that tuition would be no higher than what a student can earn with a summer job.

The Republican presidential candidates offer a range of different ideas. Bush, who is known as an education reformer in his home state, has pushed for making colleges and universities more transparent about average tuition hikes, fees and graduation rates so students can make more informed and individualized choices about their educations. Both he and Rubio have also extolled the possibilities of "virtual classrooms," as well as alternative licensing programs to reward students for skills learned outside the traditional classroom. Rubio and Chris Christie, meanwhile, have advanced a private-sector solution that would allow wealthy benefactors to underwrite the cost of a young person's education in exchange for a percentage of his future salary. Donald Trump has given some attention to the allegation that the government turns a handy profit off the interest from its student-loan program. The claim is contentious. Many economists argue that it appears profitable only if you use the strange economic model Congress requires the Congressional Budget Office to use. "If you use that model, buying the Greek debt looks profitable," Delisle warned.

Funding the dream

Congrats, you're on your way to a degree. Now what? Here's a quick guide to how much college really costs—and where to find the cash to pay for it.

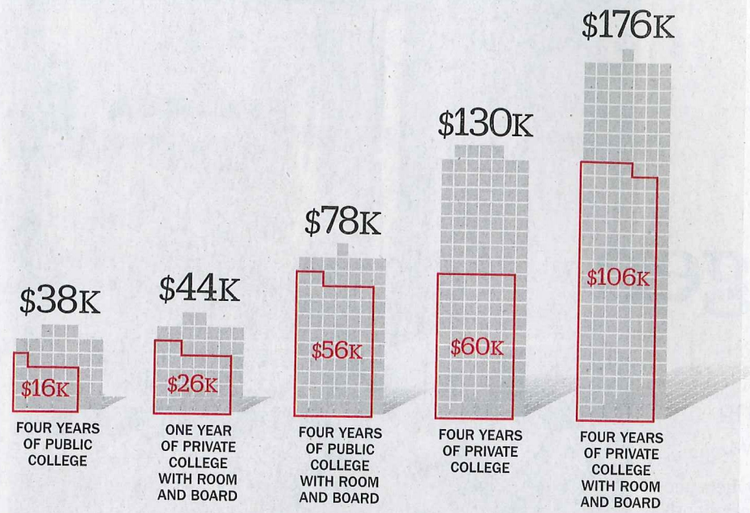
Average sticker price for tuition and fees



HOW TO PAY FOR IT

Go for the easy money first ...

	SCHOLARSHIPS AND GRANTS	PELL GRANTS
HOW MUCH IS AVAILABLE	In 2014–15, undergrads received **an average of $6,110 each** from state governments, businesses, colleges and nonprofits.	**$5,775 was the maximum** for the 2015–16 school year. That number changes slightly every year, depending on Congress's budget.
WHO CAN GET IT	About **60% of students get aid** for sports, academics, extracurriculars or just for being an important part of the student body.	**Low-income students who submit a FAFSA.** Eligibility is based on income, a school's cost and full-time status.
HOW IT IS REPAID	**No repayment necessary.** That's the great thing about grants and scholarships: they really are free money.	Just as with other scholarships and grants, there's **no repayment necessary.** But, again, the only way to qualify is to submit a FAFSA.



... then use loans to close the gap

	FEDERAL DIRECT LOANS	PARENTPLUS	PRIVATE BANKS
	$31,000 over four years for dependent undergrads, **$57,500** for independent undergrads and an unlimited amount for grad students.	An **unlimited amount for parents of undergrads,** through the federal ParentPLUS program.	There is **no official cap,** but borrowers should beware variable interest rates and requirements to begin repayment while still in school.
	Anyone who meets the general requirements, such as citizenship or legal immigration status and good credit.	**Any parent who meets the general requirements.**	**Anyone with good credit or with a co-signer with good credit.** Roughly 10% of students rely on private loans.
	Interest rate is 5.8% for undergrads and 6.8% for grad students. Payment caps at 10% or 15% of income; forgiveness after 10, 20 or 25 years.	**Interest rate is 6.8%.** Parents don't qualify for income-based repayment or loan forgiveness. But some low-income parents can get additional help.	**Interest rates range from 1% to 18%.** Private banks do not have to offer forbearance, much less income-based repayment or forgiveness.

GRAPHIC SOURCES: FEDERAL RESERVE; DEPARTMENT OF EDUCATION; 2015 COLLEGE BOARD REPORT

As for fixing the federal student-loan program, there has been some surprisingly bipartisan attention behind the scenes. Rubio, who only recently repaid his own student debt, has joined with Democratic Senator Mark Warner in proposing legislation that would "consolidate, simplify and improve" the array of existing IDR options. Under their plan, students would be automatically enrolled in an IDR plan upon graduating.

On Dec. 1, new Education Department rules will also go into effect. They will create yet another IDR program that allows anyone with direct federal loans to cap his or her monthly payments at 10% of discretionary income and get loan forgiveness after 20 years. The new program takes a step toward addressing the criticism that the programs favor graduate and professional students. It caps the total amount of loan forgiveness per student at $57,500 and extends the payment period for those with graduate-school debt to 25 years. But that cap applies only to the new program—those enrolled in, or eligible for, any of the other four IDR programs can still get their whole remaining balance, including interest, forgiven after as little as 20 years. The cap doesn't apply to borrowers enrolled in PSLF.

Both Republican and Democratic policy wonks have also been busy suggesting solutions to the root of the problem: endlessly rising tuition. The yearly hikes are driven largely by strapped state governments' cutting education funding and by institutions' spending ever more on administrators and slicker campuses. A mixture of federal incentives for institutions that remain affordable, plus opening doors to an influx of disruptive online universities and alternative paths to a traditional college degree, could make raising tuition less attractive—and eliminate the need for the government to subsidize student debt in the first place.

In the meantime, the Obama Administration hopes more students will continue to enroll in IDR and PSLF. Minks, the counselor and mother of two, says she's doing her part. She tells colleagues and friends about the programs all the time. "They usually don't believe me," she says. "They think it's too good to be true." —*With reporting by* ALEX ALTMAN, ZEKE J. MILLER *and* MARK THOMPSON/WASHINGTON ☐